



Arnold Schwarzenegger  
Governor

September 25, 2008

Mr. Rick Gillam  
Department of General Services  
Office of Audit Services  
707 3<sup>rd</sup> Street  
West Sacramento, CA 95605

Dear Mr. Gillam:

**SECOND BIENNIAL AUDIT REPORT ON THE EMPLOYMENT DEVELOPMENT  
DEPARTMENT'S CONTRACT DELEGATION FOR THE PERIOD  
NOVEMBER 1, 2006 – OCTOBER 31, 2008**

The Audit and Evaluation Division (A&ED) has completed the Second Biennial Audit Report of the Employment Development Department's (EDD) contract program. The objectives of the audit were to determine EDD's compliance with Department of General Services (DGS) Exemption Letter Number 54.2, assess the system of internal controls over EDD's contract program, and to verify that appropriate corrective actions were implemented for previous audit findings. The final audit report is enclosed for your review.

The audit of the contract program did not identify any reportable exceptions that would adversely affect EDD's operations. The A&ED's review of the prior audit findings indicates that corrective action plans have been fully implemented.

The A&ED thanks your staff for their technical assistance and guidance during the course of this audit. If you have any questions regarding this report, please contact me at 654-7000, or Ed Murray, Audit Manager, at 653-5639.

  
TONIA LEDIJU, Chief  
Audit and Evaluation Division

Enclosure







# **SECOND BIENNIAL AUDIT REPORT ON THE EMPLOYMENT DEVELOPMENT DEPARTMENT'S CONTRACT DELEGATION FOR THE PERIOD**

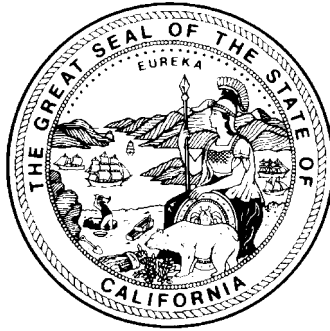
**NOVEMBER 1, 2006 - OCTOBER 31, 2008**

**September 2008**

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**Project Number  
708.019**

**Employment Development Department**



Arnold Schwarzenegger  
Governor  
**STATE OF CALIFORNIA**

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**SECOND BIENNIAL AUDIT REPORT ON THE  
EMPLOYMENT DEVELOPMENT DEPARTMENT'S  
CONTRACT DELEGATION FOR THE PERIOD**

**NOVEMBER 1, 2006 – OCTOBER 31, 2008**

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# Employment Development Department

## Audit and Evaluation Division

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### SUMMARY

This report presents the results of the Audit and Evaluation Division's (A&ED) audit of the Employment Development Department's (EDD) contract delegation for the period November 2006 through October 2008. The audit scope included an examination of EDD's contract program, and the various types of contracts, purchases, and payments. The focus of the audit was to:

- Determine EDD's compliance with DGS Exemption Letter No. 54.2.
- Assess the system of internal controls over EDD's contract program.
- Determine whether appropriate corrective actions have been implemented in response to previous audit findings.
- Determine if services being paid per invoice(s) are in accordance with the agreements.

The auditors conducted the audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors.

In A&ED's opinion, an adequate system of internal controls exists over the contract program, and the EDD is in compliance with State contract requirements and the DGS Exemption Letter No. 54.2. The audit did not identify any significant deficiencies or material weaknesses. The A&ED's review of prior audit findings indicates that corrective action plans have been fully implemented.

### CONCLUSION

Based on this review, it is A&ED's opinion that EDD's contract program is in compliance with applicable State contract laws and policies and DGS Exemption Letter No. 54.2. Tests of the contract program confirmed that the EDD has maintained an adequate system of internal controls and has taken adequate corrective action on the prior audit findings.

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### **INTRODUCTION AND BACKGROUND**

This audit represents the second biennial contract audit required by the DGS under the terms and conditions set forth in the DGS Exemption Letter No. 54.2 approved on September 8, 2004. The exemption, effective November 1, 2004 through October 31, 2008, granted the EDD contract authority up to \$75,000 for interagency agreements and standard agreements. The Business Operations Planning and Support Division's (BOPSD) Contract Services Group (CSG) administers EDD's contract program. Contracts awarded by the EDD must comply with State contract requirements including the State Administrative Manual, the State Contract Manual, the Public Contract Code, and the Government Code.

### **SCOPE AND METHODOLOGY**

The general purpose of the audit was to determine EDD's compliance with DGS Exemption Letter No. 54.2, assess the system of internal controls over EDD's contract program, and to determine whether appropriate corrective actions have been implemented in response to previous audit findings. The audit objectives were as follows:

- Document the system of internal controls over the contract program.
- Determine whether the contract program is adequate to provide reasonable assurance of compliance with State contract laws and policies.
- Determine the effectiveness of the internal controls by testing a sample of contracts awarded.
- Determine if services being paid per invoice(s) are in accordance with the agreements.

The A&ED auditors performed their fieldwork during the period of April 2008 through July 2008. Audit procedures included reviewing applicable regulations, laws, policies, and procedures; interviewing program staff; reviewing and analyzing program documentation; reviewing the system of internal controls; identifying the contract universe; testing a sample of various types of contracts; and performing other audit procedures deemed necessary.



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The A&ED auditors followed the Contracting Program Audit Guide developed by the DGS. The DGS-developed audit tools were also used to document the results of the detailed contract compliance tests.

The A&ED auditors reviewed a sample of contracts awarded during the period November 1, 2006 to February 29, 2008. Out of 1,561 awarded contracts and 650 Cal-Card cardholders, the A&ED tested a total of 273 contracts and 4 Cal-Card cardholders. Testing was also performed on payments for 19 of 53 contracts to ensure that invoices were paid in accordance with the contract terms.

The A&ED auditors used a variety of sampling methodologies for the different types of contracts and based the test sample size on the relative risk of the different contract types as determined by the DGS. Test sample sizes were generally larger for the higher-risk contracts and smaller for the lower-risk contracts. For the:

- High-risk delegated contracts, the A&ED auditors took a discovery sample and identified 21 contracts to test for general compliance with applicable contracting criteria per the State Contract Manual.
- High-risk small dollar value contracts, the A&ED auditors tested 229 contracts for circumventing the competitive bidding requirements.
- High-risk Cal-Card purchases, the A&ED auditors targeted testing on four cardholders with spending limits over \$2,000 and total purchases over \$5,000 in any three-month period to ensure competitive bidding requirements were not being circumvented.
- Low-risk contract types such as Master Service Agreements and Interagency Agreements, the auditors took a judgmental sample of five to eight contracts per contract type for testing.
- Contract payments, the auditors took a discovery sample of 19 payments for testing.

See Appendix A, Table of Audit Testing, for the details on the testing performed.

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The A&ED auditors followed-up on two prior audit findings identified in the First Biennial Audit Report on EDD's Contract Delegation for the Period November 1, 2004 – October 31, 2006.

### **CONSTRAINTS**

This audit did not cover the following areas which are specifically excluded from the DGS Program Audit Guidelines: accounting, budgeting, and expenditure control processes related to contracts.

### **AUDITOR'S OPINION**

In A&ED's opinion, EDD's contract program complies with applicable State contract laws and policies, and DGS Exemption Letter No. 54.2. The system of internal controls was adequate and includes: a database of contracts and grants; knowledgeable and trained staff; detailed training materials; documented contract procedures and processes; adequate levels of internal review; and training on the contract process and contract documents.

As a result of the review, there were no negative findings or other significant deficiencies that require corrective action. The review of prior audit findings indicates that corrective action plans have been fully implemented.

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Appendix A

**TABLE OF AUDIT TESTING**

<b>Contract Type/ Test Areas</b>	<b>Risk Level</b>	<b>Population of Approved Contracts</b>	<b>Test Sample Size</b>	<b>Sampling Method Used</b>
Delegated Contracts (\$5,000 to \$74,999) (B5)	High	134	21	Discovery sample
Small Dollar Value Contracts (under \$5,000) (B7)	High	957	229	100% of vendors with multiple contracts totaling more than \$5,000
Cal-Card Program (B9)	High	650 cardholders	4 cardholders (270 transactions)	100% of cardholders with spending limits over \$2K & purchases over \$5,000 in any 3-month period
Contracts not subject to DGS approval (grant contracts). (B3)	Low	252	5	Judgmental sample
Contracts subject to DGS approval 75,000 & above. (B4)	Low	37	5	Judgmental sample
Master Agreements (B6)	Low	45	5	Judgmental sample
Interagency Agreements (B8)	Low	136	8	Judgmental sample
Contract Payments (B10)	Unknown	53 payments	19 payments	Discovery sample

*This report was prepared by the California Employment Development Department*

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Audit and Evaluation Division Chief ..... Tonia Lediju  
Project Manager ..... Ed Murray  
Project Supervisor ..... Will Fong  
Project Staff ..... Debbie Briscoe & Luisa Doi

*For more information, please call: (916) 654-7000*

The California State Employment Development Department (EDD), as a recipient of federal and state funds, is an equal opportunity employer/program and is in compliance with Section 504 of the Rehabilitation Act and the Americans with Disabilities Act.

Special requests for alternate formats need to be made by calling the above information number.